



Director of
Central
Intelligence

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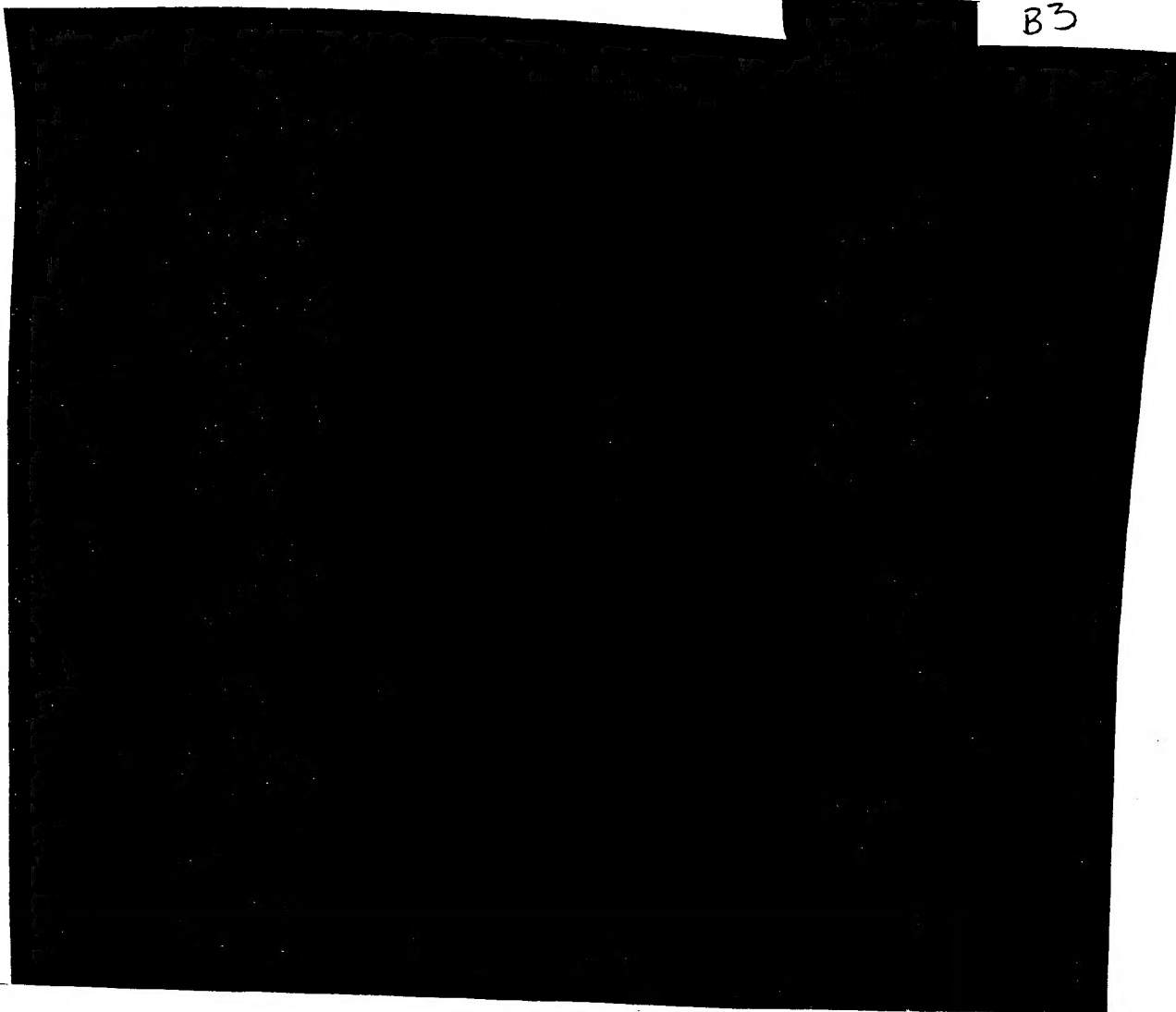
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LATIN AMERICA:

Pressures Build on Debtors

Latin American leaders used the opening day of the UN General Assembly to underscore their difficulties with their national debts, but there are no signs they are mobilizing for collective action against Western creditors. [REDACTED] B3

All of the Latin spokesmen insisted in their speeches that debt is threatening the survival of democratic institutions in the region and that some new form of relief must be found. But only Peru's President Garcia engaged in confrontational rhetoric. [REDACTED] B3

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None of the other Latin leaders supported a limit on debt payments, such as Peru has put in place, or even mentioned schemes to cap interest payments. Brazil's President Sarney, who has been taking an increasingly tough stand in public with the IMF and foreign banks, was generally moderate and cooperative in tone. [REDACTED] B3

Meanwhile, [REDACTED] the major Latin debtor countries at a recent meeting of the Cartagena Group merely agreed that a solution to the regional debt problem beyond rescheduling of payments of principal will be necessary to prevent continued economic stagnation and political instability. [REDACTED] B3, B1

[REDACTED] Moderate leaders like Sarney may have been influenced by planned US initiatives to ease debt difficulties by giving the World Bank a larger role. The Brazilians also probably hope to benefit from any concessions granted to Mexico as a result of its worsened state of external payments and the earthquake. [REDACTED] B3

Posturing among Latin debtors may become more strident at the IMF-World Bank annual meeting in Seoul in October if, in their view, creditor response to their appeals for relief is inadequate. They may push hard at the Seoul meeting for reforms to the international monetary system, which they claim places too much of the burden of external adjustment on them. [REDACTED] B3

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PHILIPPINES:

Heightened Tensions in Negros

The funeral tomorrow for the victims of last week's demonstration in northern Negros Occidental Province could prove a flashpoint for further unrest in the central Philippines.

[REDACTED] the Army claims demonstrators were responsible for provoking the violence that left at least 26 civilians dead and more than 50 seriously wounded. Witnesses, however, report that members of the local militia charged the crowd and, when demonstrators fought back, began firing indiscriminately. Medical evidence [REDACTED] indicates that many victims were shot while lying on the ground. [REDACTED]

Comment: More than 50,000 people, seeded with militant leftists, are expected to attend the funeral in a show of antigovernment sentiment. Heightened public hostility has created a volatile atmosphere that could explode with little provocation. Government troops, however, remain under strict "maximum tolerance" orders.

Even if the funeral is kept under control, the shooting incident has set back government counterinsurgency efforts in Negros by making the local militia even more unpopular and undermining cooperation with other military and police forces. The Communist Party will be exploiting the incident in its nationwide propaganda efforts. [REDACTED]

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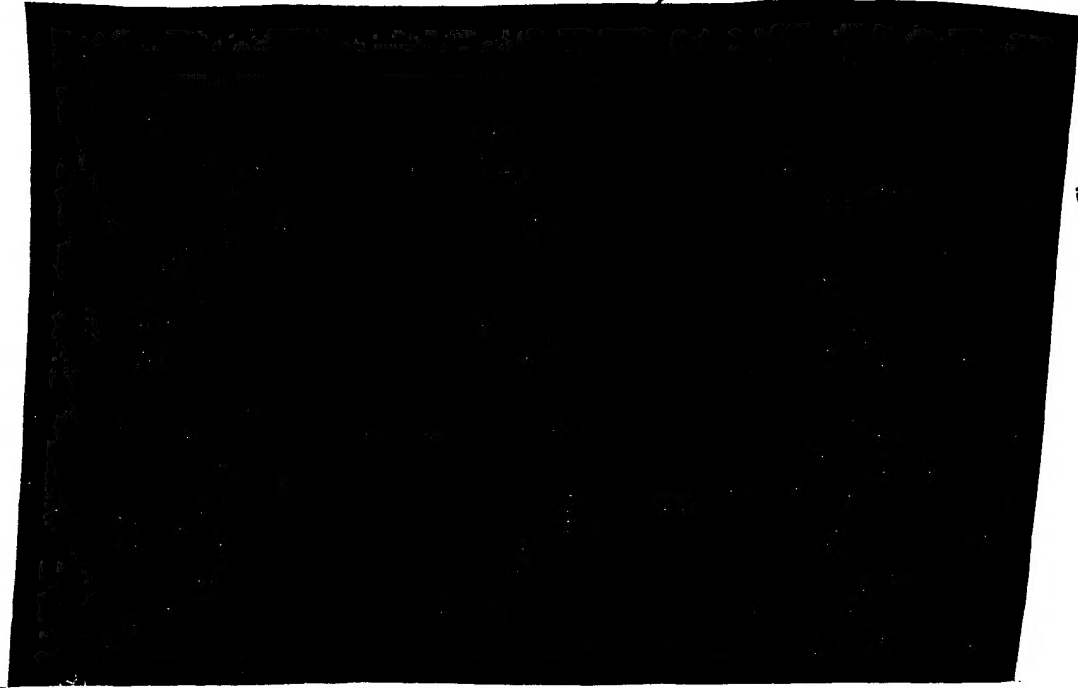
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JORDAN-SYRIA: Minor Progress on Bilateral Issues

[redacted] the Prime Ministers of Syria and Jordan agreed at their recent meeting in Jidda to end media attacks and improve liaison between border patrols in an effort to prevent infiltration in either direction. Jordanian and Syrian officials plan to meet again in Jidda at the end of October.

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[redacted] There has already been a toning down of media commentaries, suggesting both countries are eager to improve at least the atmosphere of their strained relationship.

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[redacted] Despite the reported agreement to cooperate on border security, Syria probably will continue to promote forays into Jordan by radical Palestinian groups in an effort to undermine the Hussein-Arafat initiative.

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SOUTH AFRICA: New Economic Measures

Pretoria recently announced economic measures designed to demonstrate government concern over rising unemployment and economic hardship among blacks. [REDACTED] A
10-percent hike in selected customs duties will fund a \$200-million increase in projects to create jobs, to assist small businesses, to expand job training, and to provide additional food relief. Small reductions were announced in bank interest rates, credit restrictions, and taxes on the sale of automobiles. [REDACTED]

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[REDACTED] The customs surcharge will apply to about 55 percent of South Africa's imports and will strengthen longstanding government efforts to conserve foreign exchange by reducing demand for imports of consumer goods. The additional spending on relief for unemployment will do little to reduce the number of jobless blacks, now estimated at more than 2 million. Assistance to small businesses and expanded job training will be at least as beneficial to the 65,000 unemployed whites, Asians, and Coloreds [REDACTED]

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FRANCE: Defense Spending

The French Council of Ministers has approved a government budget for 1986 that Paris claims will provide almost 2-percent real growth in defense spending after three years of zero growth. [REDACTED]

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[REDACTED] defense expenditures will total \$17.6 billion—a nominal increase of 5.4 percent over 1985. The overall national budget, however, is to increase by only 3.6 percent. France's nuclear forces will continue to receive the highest priority—about a third of the procurement funds. The budget also allocates funds for military space programs, including research on an observation satellite and procurement of a satellite system for defense communications. It does not, however, provide funds for the planned purchase of [REDACTED] a new long-range transport to support French intervention overseas [REDACTED]

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[REDACTED] The French claim of a real increase of 2 percent in defense spending is based on unrealistically low projections of inflation. If inflation is higher, as independent economic forecasts indicate, real growth in defense spending will continue to be almost zero. [REDACTED]

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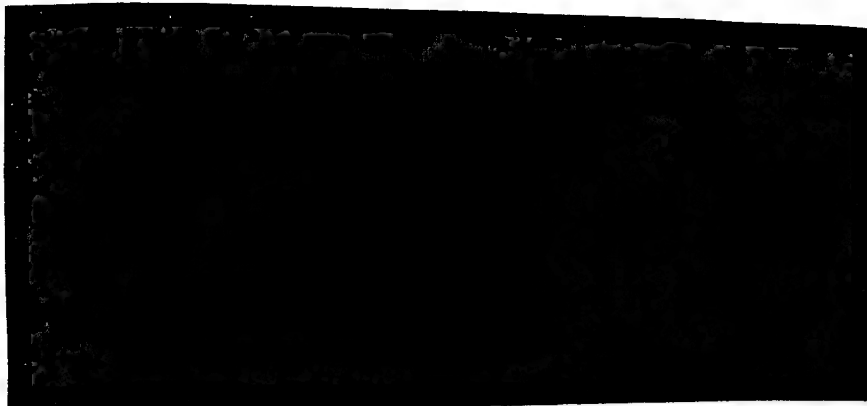
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KUWAIT: Rumored Resignation of Oil Minister

~~_____~~ Oil Minister Ali Khalifa intends to resign before the National Assembly reconvenes this fall. ~~_____~~ he tried to resign last summer following the resignation of Kuwait's Justice Minister but was dissuaded by the Amir. The Assembly has accused Ali Khalifa of malfeasance in connection with the purchase of the US-based Santa Fe Corporation three years ago. In addition, Ali Khalifa was Finance Minister after the unofficial stock market collapsed in 1982 and has been blamed for many of the ensuing negative effects on the economy. ~~_____~~

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~~_____~~ Ali Khalifa may have started the resignation rumors himself to get the government to reaffirm its support for him before the Assembly opens. Even if the Amir complies, Ali Khalifa probably will go through with the resignation if the Assembly debate on the Santa Fe purchase turns bitter. The ruling family may let Ali Khalifa go in hopes of pacifying the Assembly and avoiding a clash between the Assembly and the Cabinet. Giving in, however, could prompt critics in the Assembly to go after other targets—including Crown Prince Saad Abdullah. ~~_____~~

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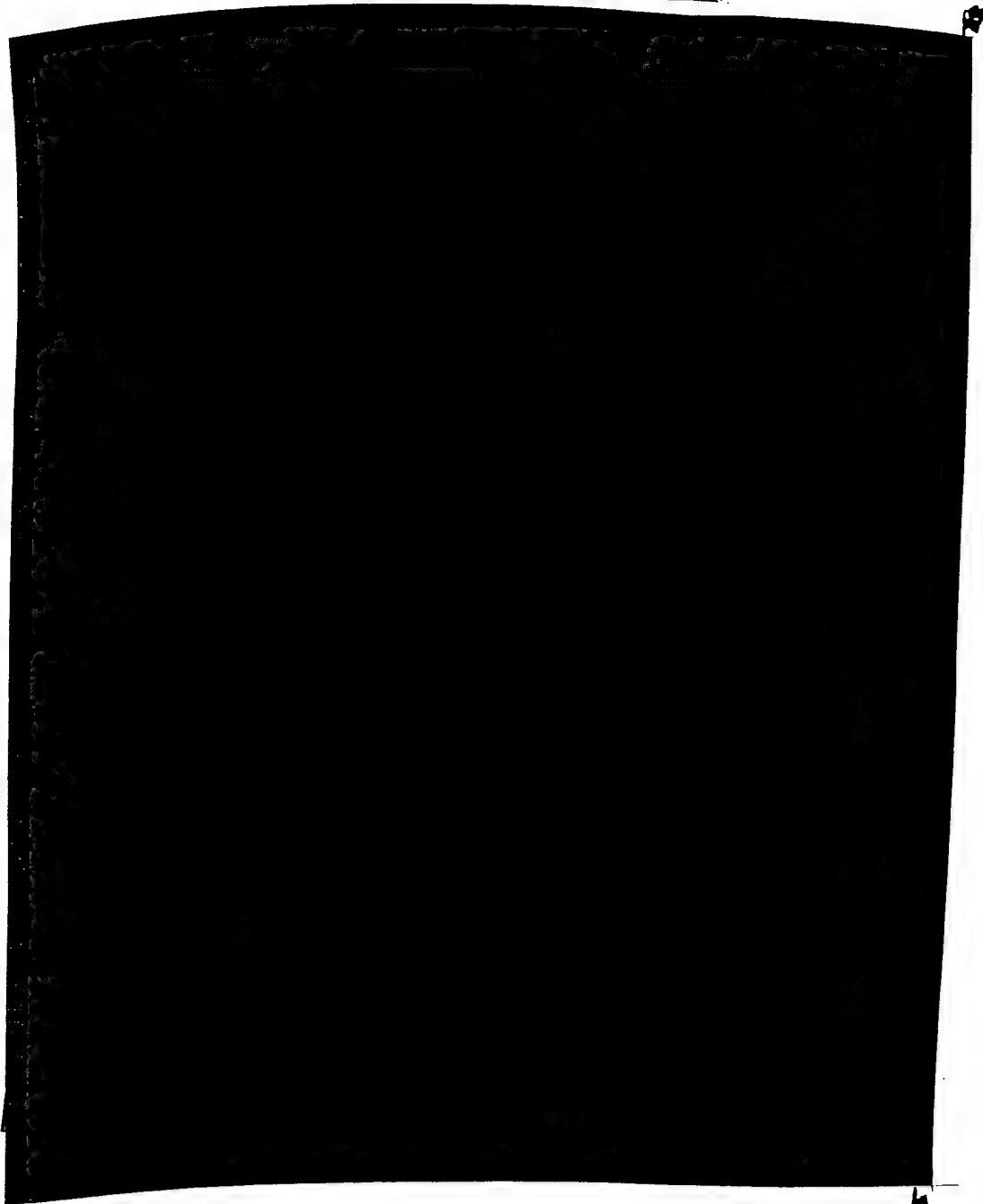
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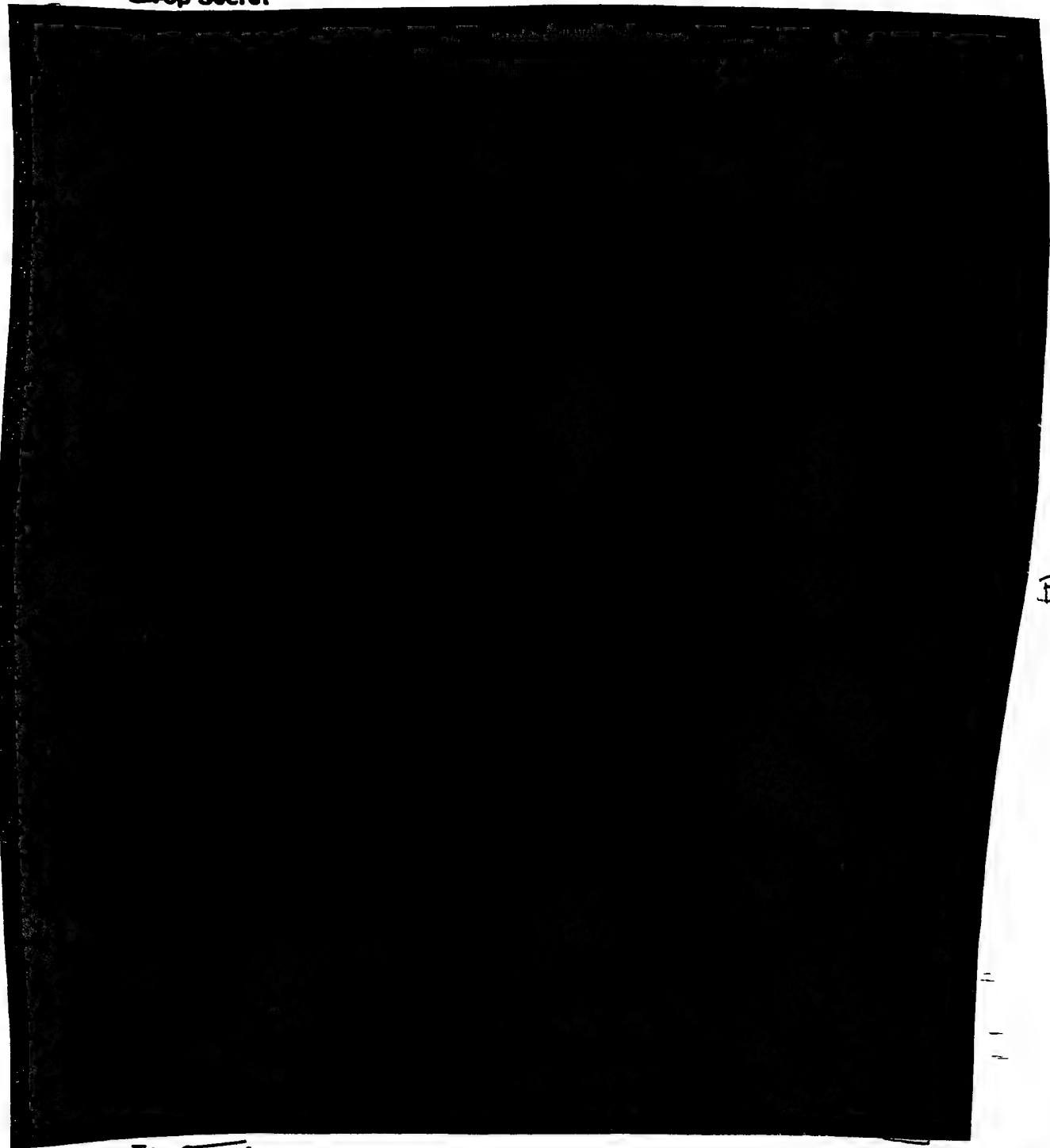
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In Brief

Middle East

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— Deputies of Lebanon's factional leaders—Barri of Amal, Junblatt of Druze, Hubayqa of Christian Militia—met in Damascus, Syria, yesterday ... agreed to future meeting of leaders ... effort may fail because Junblatt opposes meeting Hubayqa.

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USSR

— Rumors still circulating in Moscow that Soviet Marshal Ogarkov to replace Warsaw Pact Commander Kulikov, possibly within a month ... could be linked to Warsaw Pact summit in late October ... Kulikov at post early September.

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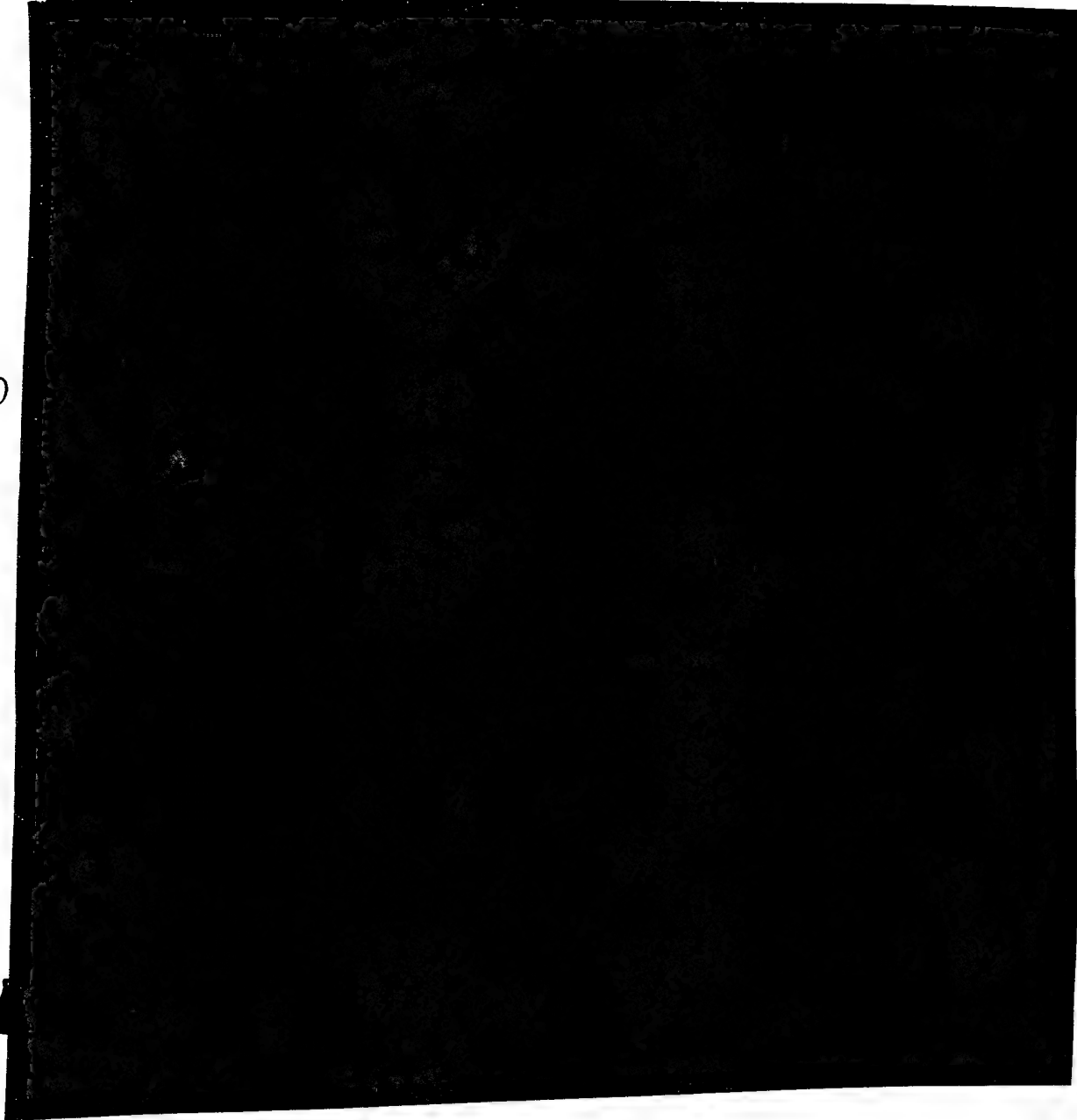
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Americas

- **Brazil's** national oil company yesterday announced another oil discovery in Campos Basin . . . adds one billion barrels to reserves, but only 30 percent economically recoverable . . . expense, technical difficulties impede exploitation in deep water. [REDACTED]

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South Asia

- Two **Sri Lankan** Tamil leaders beginning separate 10-day visits to US this week . . . their trips suggest India sees little imminent movement in peace process . . . **Indian** Foreign Secretary goes to Colombo tomorrow to push for cease-fire. [REDACTED]

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- [REDACTED] pro-Iranian group in **Bangladesh** to call for Islamic holy war against government . . . follows meeting in London last month between group and Iranians . . . security forces should contain any demonstrations. [REDACTED]

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- [REDACTED] sharp decline in **Hungary's** hard currency earnings for 1985 . . . current account deficit possible . . . had \$330 million surplus last year . . . Budapest may need to resume IMF standby program in 1986. [REDACTED]

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- **Romania's** leading bank creditors syndicating \$150 million loan this week . . . will also underwrite bulk of loan . . . unusually high interest rates reflect loan's limited marketability. [REDACTED]

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- **Turkey** to invite bids for construction of pipeline for gas imports from **USSR** . . . gas purchase contract not yet signed . . . payment terms unresolved . . . Moscow insisting on partial payment in hard currency. [REDACTED]

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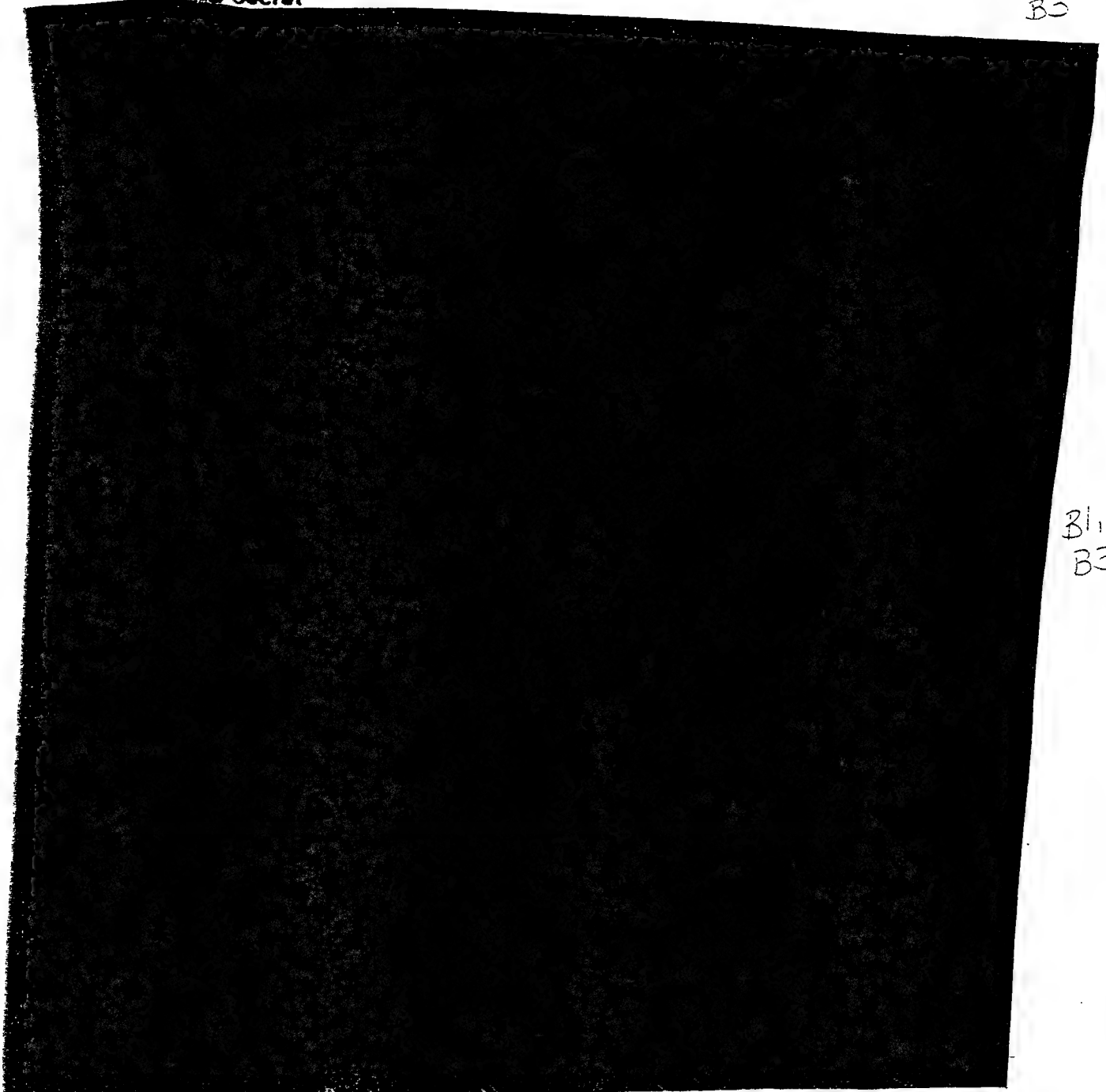
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Special Analysis

CHINA:

What the Meetings Accomplished

The series of party meetings that concluded yesterday marks a substantial victory for Deng Xiaoping and his reform group, but political compromises are apparent in decisions on personnel and the conservative tone of the key speeches. Protesges of General Secretary Hu Yaobang and Premier Zhao Ziyang named to the Politburo and Secretariat expand the core of reform leaders at the top, even though a handful of orthodox leaders remain in place and will continue as watchdogs favoring a more moderate approach on reform issues. The military, whose representation on the Politburo dropped from 10 to three members, is a major institutional loser.

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The one-day Central Committee plenum that met yesterday to endorse Politburo and Secretariat changes capped a week of high-level activity that included two Central Committee plenums and an extraordinary conference of party delegates. In addition to party personnel changes, the sessions endorsed a party document on the Seventh Five-Year Plan (1986-90).

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Deng's Achievements

After protracted horse trading this summer, the reform triumvirate of Deng, Hu, and Zhao brought the meetings in on schedule and generally got what they wanted. They secured an unprecedented resignation of 64 Central Committee members—including 10 from the Politburo—who were replaced by younger, better educated reformers. Hu placed three close associates on both the Politburo and Secretariat, and a known Zhao protege also made both bodies. Leaders closely identified with the reforms now hold a slight numerical advantage on both the Politburo and the Secretariat. The reduction of military representatives on both the Politburo and Central Committee advances Deng's plan to create a more professional military establishment, less prone to meddle in politics.

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Despite widely publicized economic problems over the last year, the proposals on the Five-Year Plan strongly reaffirm the reform program approved last year. The Plan guidelines call for further expansion of decisionmaking powers by enterprises, an increase in foreign borrowing, and continued promotion of foreign investment in the special economic zones.

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Compromise Evident

At major party convocations Deng has often sought to disarm critics by taking a hard line in favor of traditional party values. In an apparent concession to orthodox party leaders, both Hu and Deng struck a markedly conservative tone in their speeches to the conference of delegates. This almost certainly presages—for a while at least—a more subdued treatment of such controversial topics as individual enrichment and a greater emphasis on the socialist content and goals of reform. [REDACTED]

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Politburo Standing Committee member Chen Yun reiterated a litany of conservative complaints about reform in a sharply worded speech to the conference. Chen nevertheless ended a yearlong silence on economic policy by offering his endorsement of measures enacted since last October's party plenum. Orthodox leaders such as Chen and Peng Zhen will continue to remind Deng and his allies of the party's socialist obligations. [REDACTED]

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Concerns of reformers and conservatives alike are reflected in guidelines for economic planning that call for damping rapid industrial growth and reining in capital construction. The draft proposal mandates a 7-percent annual growth in production, less than half of the current rate. Investment in the Plan's first two years apparently will be held to the 1985 level, and Beijing will emphasize the renovation of existing plants and breaking bottlenecks in energy, transportation, and communications. [REDACTED]

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Unfinished Business

Beijing made no announcement on Deng's proposed succession package, which includes his cession of the party Military Commission chairmanship to Hu Yaobang and the promotion of Hu Qili to General Secretary. The sessions almost certainly discussed the shuffle and may have endorsed it for later implementation. [REDACTED]

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The resignations from the Central Committee of five of nine ranking members of the Military Commission suggests a shakeup is in the offing. If nothing else, the across-the-board reduction in the political clout of the Army will reduce resistance to Hu Yaobang's takeover of the Military Commission. [REDACTED]

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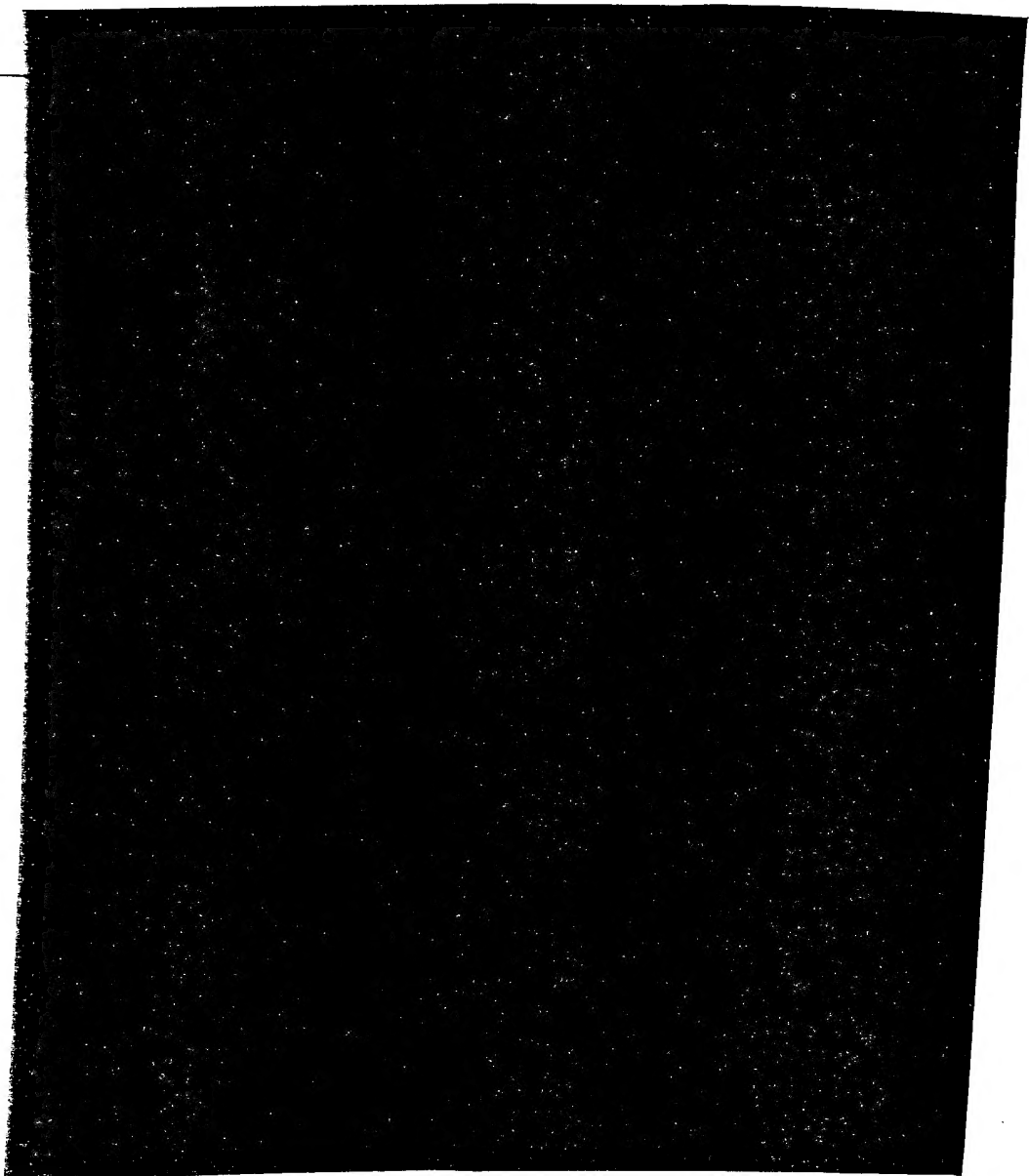
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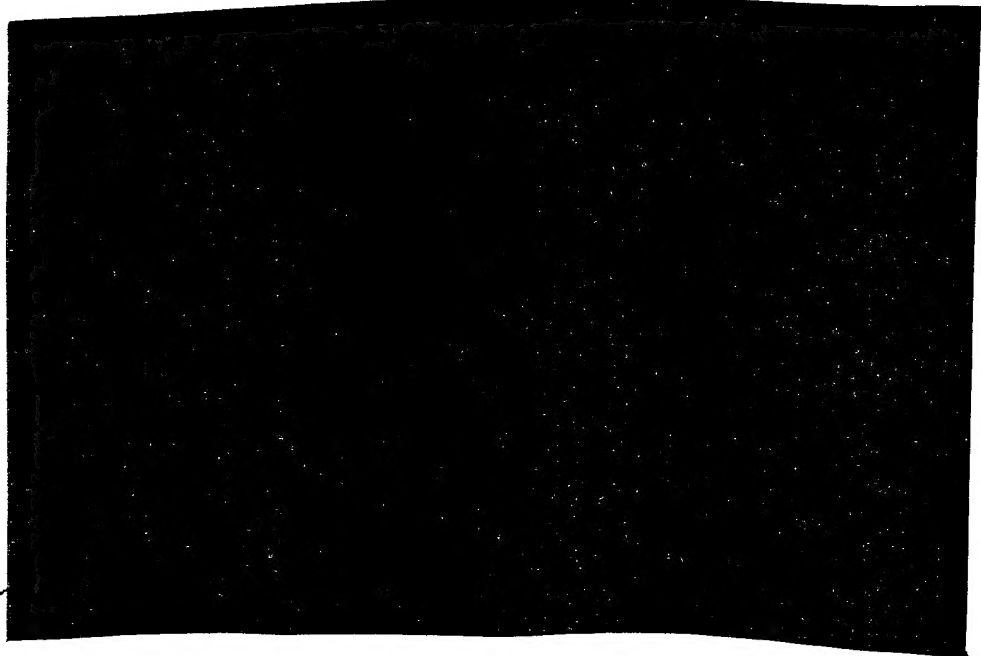
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